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SUBJECT: COTE D'IVOIRE APPARENTLY SPENT WORLD BANK ARREARS
MONEY (AGAIN)

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Classified By: Econ Chief EMassinga, Reasons 1.4 (b,d)

¶1. (C) World Bank Chief of Mission Peter N'Gomba and Senior Economist Richard Donffonso told EconChief January 26 that an ongoing IMF audit of Ivorian governmental finances is pointing strongly to the conclusion that Cote d'Ivoire has spent the USD 160 million it had borrowed to cover part of its outstanding World Bank arrears (reftel). The government raised the money by floating special bonds in May and June of 2006, and the money was deposited in an escrow account at the West African Central Bank (BCEAO). The total arrears to the World Bank now stand above USD 400 million and continue to climb. IMF and World Bank officials, along with their counterparts at the African Development Bank, fear that if this irresponsible spending is confirmed, Cote d'Ivoire is worsening its macroeconomic fundamentals and seriously compromising any future budget support and debt reduction. This would be the second time this has happened -- in 2005 Cote d'Ivoire also spent money it had borrowed to partially cover its World Bank arrears.

¶2. (C) According to World Bank officials, IMF auditors of Ivorian accounts at the BCEAO are finding that Cote d'Ivoire has drawn down its other BCEAO accounts against its arrears escrow account, effectively raising the state's total debt, even while technically the escrow account remains untouched. According to N'Gomba, this maneuver jeopardizes Cote d'Ivoire's eligibility to receive the promised USD 120 million in Emergency Post Conflict Assistance from the IMF, as well as promised assistance from the World Bank (USD 40 million in HIV/AIDS support, USD 104 in Disarmament, Demobilization and Reintegration (DDR) funds and USD 120 in budget support). Beyond these direct effects on Cote d'Ivoire's ability to look to the IFIs for assistance, by effectively using the proceeds from bonds designed to amortize debt to instead pay current expenditures, the Ivorian Treasury is making it all the more difficult to repay the bond-holders as the interest on the bonds begins to come due.

¶3. (C) Cote d'Ivoire's annual debt service is very high, at about USD 1.6 billion, on an overall debt stock of USD 16 billion. The country's arrears on its debt to the African Development Bank are twice as high as its arrears to the World Bank, and its arrears on its bilateral debt to France are higher still. World Bank officials very much want to see Cote d'Ivoire's arrears cleared so they can disburse the promised USD 100 million grant for disarmament. Longer-term, World Bank and IMF officials would like to see the total debt stock reduced by taking the country through Enhanced HIPC and then potentially the Multilateral Debt Relief Initiative.

¶4. (C) Perhaps because the sole, slim hope for genuine

improvement in the country's macroeconomic picture is through significant progress in resolving the country's political crisis, World Bank officials were eager to believe that the upcoming direct talks between President Gbagbo and rebel FN (New Forces) leader Guillaume Soro might bring such progress.

We cautioned against undue optimism, especially in light of the many previous peace agreements that the Ivoirians have entered into with each other but never fully honored. World Bank representatives were also enthusiastic about offering technical assistance to help with the restoration of the banking sector in Northern, rebel-held areas.

15. (C) Comment. Cote d'Ivoire's deteriorating macroeconomic picture underscores how the protracted political crisis continues to gradually sap the country's strength. Prime Minister Banny, ostensibly in charge of the country's finances through his role as PM, Finance Minister and still also governor of BCEAO, is clearly not fully in control of the government's spending, perhaps not even that of the Finance Ministry itself (World Bank officials were at a loss to explain Banny's precise role in the siphoning off of the money borrowed to help clear the arrears, and noted that Finance Minister Delegate Charles Diby Koffi, who runs the ministry on a day-to-day basis, cannot be considered a Banny ally). Without a genuine resolution of the political crisis, a further deterioration of state finances appears inevitable, but in the meantime, it appears increasingly likely that Cote d'Ivoire has decided to try to wait out the IFIs in the hope of receiving debt forgiveness. End Comment.
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